

AGENCY COLLECTION ACTIONS REVIEW EXECUTIVE SUMMARY

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AUDIT HIGHLIGHTS

The State Controller's Office (SCO) reviews all state agency requests for "Discharge from Accountability" for debts the agency determines are not collectible or not cost effective to pursue. Beginning with fiscal year 2008-09, the State Controller's Office is requiring state agencies to certify and submit an annual representation letter verifying that their accounts receivable collection procedures are in accordance with the State Administrative Manual (SAM) and related Governmental Code (GC) sections. These sections describe acceptable accounts receivable collection methods.

The SCO memo spelled out numerous elements that our review needed to cover. Our review of FTB's accounts receivable collection methods revealed good internal controls. The SCO memo also cited FTB as a model for good collection practices and suggested that other state agencies consult FTB.

The Accounts Receivable Collection System (ARCS) is responsible for automating much of the SAM and GC acceptable collection practices. And though FTB submits its debts to SCO for discharge approval, it is not discharged in the traditional sense. The ARCS continues to monitor discharged accounts for new asset income sources and will send garnishments when new payers (i.e. employers, banks) are identified. Thus, our discharged accounts are not truly written off as uncollectible and we may resume collection activities at any time. This allows collection staff to focus on more cost beneficial accounts while ARCS will monitor the discharged accounts.

In addition to maintaining adequate controls, the Accounts Receivable Management Division continues to seek additional avenues for revenue and compliance (i.e., U.S. Treasury Offset Program, Occupational License Suspension). For more detailed information, please refer to the audit report.



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State of California
Franchise Tax Board

9.30.08

To: Bill Jones, Chief
Accounts Receivable Management Division

From: Philip Yu

Agency Collection Actions Review 2008

Memorandum

We completed our review of Franchise Tax Board's accounts receivable collection process.

The State Controller has the statutory authority to direct and superintend the collection of all money due the State. The State Controller's Office (SCO) reviews all state agency requests for "Discharge from Accountability" for debts the agency determines are not collectible or the agency determines that further collection efforts are not warranted.

Beginning with fiscal year 2008-09, the State Controller's Office is requiring state agencies to certify and submit an annual representation letter by the end of October verifying that their accounts receivable collection procedures are in accordance with the State Administrative Manual (SAM) and related Governmental Code (GC) sections. These sections describe acceptable accounts receivable collection methods.

AUDIT OBJECTIVE

The audit objective is to review:

- Accounts receivable collection procedures are in accordance with SAM and GC sections, and
- FTB complies with the following:
 1. Accounts receivable recorded in FTB's accounting systems within 30 days of when they arose.
 2. Skip tracing if debtor's address is not known.
 3. Debtor notified in writing of amount due within 30 days of when the accounts receivable arose.
 4. Debtor receives at least 3 bills at 30-day intervals unless different intervals are appropriate and can be justified.
 5. FTB participates in the interagency intercept collections program (IICP).
 6. If a debt remains unpaid after 150 days, a comprehensive cost/benefit analysis of further collection activities is performed.
 7. Offsets are initiated if appropriate.
 8. Withhold services (i.e. licensing) are initiated if appropriate.
 9. Debts are referred to an outside collection agency if appropriate.
 10. Legal actions to obtain judgments are pursued if appropriate.

11. Lien and/or levy if appropriate.
12. Sell accounts receivable when cost-beneficial and appropriate.
13. Consult with other agencies to develop methods to improve FTB's collection rate.
14. Pursue all other cost beneficial actions if appropriate (i.e. filing a creditor's claim in bankruptcy, filing a claim against a decedent's estate, etc.).
15. Debtor's amounts are submitted for discharge from accountability approval only when the debt is uncollectible or it is not cost effective to pursue.

SCOPE

The scope of this audit included activities from July 2007 to present.

METHODOLOGY

To achieve our audit objective, the internal audit team:

- Researched and reviewed relevant or applicable policies, regulations, statutes, and procedure manuals.
- Interviewed staff from the Accounts Receivable Management Division.
- Reviewed information and documentation from the Accounts Receivable Management Division, the Investigations Bureau, and the Processing Services Bureau.
- Reviewed Personal Income Tax (PIT) and Business Entities (BE) discharged accounts to determine if the above criteria are met.

RESULTS

Per our review of the PIT and BE account receivable collection process, the Accounts Receivable Management staff is meeting statutory and regulatory requirements and following procedures. A summation of our observations is found below.

1	The majority of FTB's accounts receivables are Filing Enforcements, which are recorded within 30 days. Exceptions include liabilities resulting from returns filed during peak filing season. This is being reviewed further in another audit.
2	Skip tracing is routinely performed by Accounts Receivable Collection System (ARCS) and manual collectors. The ARCS' Bad Address Process was not being performed because our contract expired June 2008. A new contract has been signed and ARCS files were transmitted September 26, 2008.
3	The debtor is notified in writing of the amount due within 30 days of when the accounts receivable arose. Our sample revealed a few exceptions and these resulted from filed returns not processed timely.
4	New debtors receive 3 billing notices. Many of the accounts had a history of non-compliance and therefore received fewer notices. There were a few debtors that received only one bill from TI or BETS.

5	FTB not only participates, it operates the Interagency Intercept Collections Program (IICP) on behalf of the State Controller's Office.
6	ARCS/STRATA performs a risk/yield analysis that is comparable to a cost/benefit analysis to determine further collection actions.
7	FTB liabilities are paid through offsets of refunds from FTB, EDD, BOE and CA Lottery winnings. A pilot program to offset federal income tax refunds began July 2008.
8	FTB does not withhold services but does suspend/hold liquor licenses. A bill for Occupational License Suspension is pending legislative approval.
9	Specific debts are referred to an outside collection agency. These include out of state accounts and those that we are not budgeted to work.
10	FTB does not have to pursue judgments for their levies. We do pursue judgments through criminal investigations and small claims court as needed.
11	FTB routinely liens/levies through ARCS and manual collections.
12	FTB has considered selling their accounts receivables and documented this in an issue paper to DOF in 2007.
13	FTB participates in an Interagency Tax Collection Committee, which is comprised of other state agencies and the Internal Revenue Service. They meet semi-annually to share information and improve collection practices.
14	FTB does pursue other cost beneficial actions including filing a creditor's claim in bankruptcy and filing a claim against a decedent's estate.
15	Debtor's amounts are submitted for discharge from accountability approval only when the debt is uncollectible or it is not cost effective to pursue.

Though FTB submits its debts to SCO for discharge approval, it is not discharged in the traditional sense. The ARCS continues to monitor discharged accounts for new asset income sources and will send garnishments when new payers (i.e. employers, banks) are identified. Thus, our discharged accounts are not truly written off as uncollectible and we may resume collection activities at any time. This allows collection staff to focus on more cost beneficial accounts while ARCS will monitor the discharged accounts.

In addition to maintaining adequate controls, the Accounts Receivable Management Division continues to seek additional avenues for revenue and compliance (i.e., U.S. Treasury Offset Program, Occupational License Suspension).

CONCLUSION

Based on our review, Franchise Tax Board maintains accounts receivable collection procedures in accordance with the State Administrative Manual and related Government Code sections.

We greatly appreciate the cooperation and assistance provided to us by your managers and staff during our review. If you have any questions, please contact Lynnette Chan at 845-4790 or Carla Terrell at 845-3386.

Philip Yu, Director
Internal Audit Bureau

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